FISCAL NOTE

Bill #: **HB0669**

Title: Clarify and revise tax valuation of rail transportation property

Primary Sponsor: **Bob Story**

Status: As introduced

Sponsor signature Date

Dave Lewis, Budget Director Date

Fiscal Summary

	FY2000 Difference	FY2001 Difference
Expenditures:		
School GTB (GF)	$8,149	$8,800
Revenue:		
General Fund	($26,334)	($53,590)
State Special Revenue	(2,724)	(5,542)
Net Impact on General Fund Balance:	**($34,483)**	**($62,390)**

Yes	No		Yes	No	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget		X	Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. An average two percent growth is anticipated for centrally assessed companies included in this proposal.
2. Railroad companies will be appraised using a formula that includes three change factors. The formula will reflect in all components of its three change factors the annual average two percent growth anticipated for centrally assessed companies.
3. The gross profit margin change factor will recognize the two percent growth in both earnings and operating revenue components rendering a change factor of 1.0 or “no change” in the gross profit margin.
4. The anticipated loss in taxable value of railroad companies due to the implementation of the proposed appraisal formula is $293,741 in FY2000 and $597,762 in FY2001. The anticipated loss in tax revenue from railroad companies is $107,224 in FY2000 and $218,201 in FY2001.
5. The estimated loss in property tax revenue for the 95-mill levy is $26,120 for FY2000 and $53,154 for FY2001.

6. The estimated loss in property tax revenue for the 1.5 vo-tech mill levy is $214 for FY2000 and $436 for FY2001.
7. The estimated loss in property tax revenue for the 9-mill state assumption of welfare is $1,072 in FY2000 and $2,182 in FY2001.
8. The estimated loss in property tax revenue for the 6-mill university levy is $1,651 in FY2000 and $3,360 in FY2001.
9. The estimated loss in property tax revenue due to this proposal on local governments is $78,167 in FY2000 and $159,069 in FY2001.
10. The reduction in taxable values will cause school districts to increase GTB levies in FY2000 and FY2001 to maintain minimum budgets required under section 20-9-308(1)(a), MCA. The higher levies will increase the amount of state GTB aid by $8,149 in FY2000 and $8,800 in FY2001. In subsequent years the statewide GTB will be adjusted resulting in changes in state GTB aid.

FISCAL IMPACT:	FY2000 Difference	FY2001 Difference
Expenditures:		
School GTB	$8,149	$8,800
Funding:		
General Fund (01)	$8,149	$8,800
Revenues:		
General Fund (01)	($26,334)	($53,590)
State Special Revenue (02)	(2,724)	(5,542)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	($34,483)	($62,390)
State Special Revenue (02)	(2,724)	(5,542)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
It is estimated that the proposal will result in a reduction in property tax revenue for local governments and schools of $78,167 in FY2000 and $159,069 in FY2001.

LONG-RANGE IMPACTS:
It is estimated that the proposal will result in an on-going reduction in property tax revenue. The table below illustrates the allocation of tax revenue loss for FY2002 through FY2005:

	2002	2003	2004	2005
95 mills	(81,127)	(110,062)	(139,986)	(170,924)
1.5 mills	(666)	(904)	(1,149)	(1,403)
6 mills	(5,129)	(6,958)	(8,850)	(10,806)
9 mills	(3,330)	(4,518)	(5,747)	(7,017)
Local Gov	(242,780)	(329,373)	(418,923)	(511,509)
Total	(333,032)	(451,815)	(574,655)	(701,659)

TECHNICAL NOTES:

1. Market value definitions would need to be changed to include this formula methodology as a market value methodology. Currently the market value definition has no exception that would allow this type of formula to qualify as an approach to market value.
2. Section 2(1) includes potentially conflicting statements. The first statement indicates that railroad property new to the state shall be appraised using accepted unit value methods. The next statement indicates that if ownership of an existing railroad changes hands, the base value transfers with ownership. In the case of a merger, the acquiring company could have both new property to the state and property that the acquiring company is in the process of purchasing in Montana which is existing railroad property. Clarification is needed regarding how to use two different appraisal methods for the same company.
3. Section 2(3) requires six years of data for assessment purposes. Clarification should be offered regarding how to treat the circumstance where the required data does not exist.
4. Section 2(6) defines gross profit margin with the term operating revenues. Operating revenues should be defined as well.
5. Because of the effective date (on passage and approval), amendments may be necessary to allow adequate time for (1) companies to meet their reporting requirements, (2) the department to calculate the assessed value and (3) companies to exercise their appeal rights.
6. The definition of “base value” will require the department to accept previous year values as the starting point for all future years. Current year values include property appraisals determined by settlement rather than by appraisal methods. In general, the department has opposed the concept of using a settlement value as a basis for future assessment values.